

**23-0009-AI**

**TEST BOOKLET  
COMMERCE & ACCOUNTANCY**

**Time Allowed: 3 Hours**

**PAPER - I**

**Maximum Marks: 300**

**INSTRUCTIONS TO CANDIDATES**

*Read the instructions carefully before answering the questions: -*

1. This Test Booklet consists of 16(sixteen) pages and has 75 (seventy-five) items (questions).
2. IMMEDIATELY AFTER THE COMMENCEMENT OF THE EXAMINATION, YOU SHOULD CHECK THAT THIS BOOKLET *DOES NOT* HAVE ANY UNPRINTED OR TORN OR MISSING PAGES OR ITEMS ETC. IF SO, GET IT REPLACED BY A COMPLETE TEST BOOKLET.
3. Please note that it is the candidate's responsibility to fill in the Roll Number and other required details carefully and without any omission or discrepancy at the appropriate places in the OMR Answer Sheet and the Separate Answer Booklet. Any omission/discrepancy will render the OMR Answer Sheet and the Separate Answer Booklet liable for rejection.
4. Do not write anything else on the OMR Answer Sheet except the required information. Before you proceed to mark in the OMR Answer Sheet, please ensure that you have filled in the required particulars as per given instructions.
5. Use only **Black Ball Point Pen** to fill the OMR Answer Sheet.
6. This Test Booklet is divided into 4 (four) parts - Part - I, Part - II, Part - III and Part - IV.
7. All three parts are **Compulsory**.
8. **Part-I** consists of **Multiple Choice-based Questions**. The answers to these questions have to be marked in the OMR Answer Sheet provided to you.
9. **Part-II, Part-III and Part-IV** consist of **Conventional Essay-type Questions**. The answers to these questions have to be written in the separate Answer Booklet provided to you.
10. In Part-I, each item (question) comprises of 04 (four) responses (answers). You are required to select the response which you want to mark on the OMR Answer Sheet. In case you feel that there is more than one correct response, mark the response which you consider the best. In any case, choose **ONLY ONE** response for each item.
11. After you have completed filling in all your responses on the OMR Answer Sheet and the Answer Booklet(s) and the examination has concluded, you should hand over to the Invigilator *only the OMR Answer Sheet and the Answer Booklet(s)*. You are permitted to take the Test Booklet with you.
12. **Penalty for wrong answers in Multiple Choice-based Questions:**  
THERE WILL BE PENALTY FOR WRONG ANSWERS MARKED BY A CANDIDATE.
  - (i) There are four alternatives for the answer to every question. For each question for which a wrong answer has been given by the candidate, one-third of the marks assigned to the question will be deducted as penalty.
  - (ii) If a candidate gives more than one answer, it will be treated as a wrong answer even if one of the given answers happens to be correct and there will be same penalty as above to the question.
  - (iii) If a question is left blank. i.e., no answer is given by the candidate, there will be no penalty for that question.

**PART - I**  
**(Multiple Choice-based Questions)**

*Instructions for Questions 1 to 50:*

- *Choose the correct answers for the following questions.*
- *Each question carries 3 marks.*

**[3x50=150]**

1. Which of the following statements is not true with regard to Call money?
  - (a) It is short-term finance repayable on demand.
  - (b) Its maturity period ranges from one day to fifteen days.
  - (c) There is a direct relationship between call rates and other short-term money market instruments.
  - (d) It is used for inter-bank transactions
  
2. Which among the following should divisible profit not include?
  - (a) Interest on capital
  - (b) Capital
  - (c) Depreciation
  - (d) None of the above
  
3. When two or more organizations combine their resources to take the advantage of economies of large-scale production it is known as \_\_\_\_\_
  - (a) Amalgamation
  - (b) Absorption
  - (c) Internal Reconstruction
  - (d) External Reconstruction
  
4. Which of the following is the difference between the standard cost of materials resulting from production activities and the actual cost incurred?
  - (a) Direct material variance
  - (b) Direct labour variance
  - (c) Fixed overhead variance
  - (d) Variable overhead variance
  
5. From which of the following can dividend not be paid out of?
  - (a) Capital profit
  - (b) Capital receipts
  - (c) Revenue receipts
  - (d) None of the above
  
6. Capital profit implies profit earned -
  - (a) Through business transaction
  - (b) From capital
  - (c) From sale of fixed assets
  - (d) From sale of current assets

7. The auditor in his report gives his -
  - (a) Judgment
  - (b) Opinion
  - (c) Guarantee for correctness of accounts
  - (d) True state of affairs
  
8. Which of the following is the limitation of standard costing?
  - (a) Economical
  - (b) Delegation of Authority
  - (c) Formation of Pricing Policies
  - (d) Necessity of Budgetary Control
  
9. Which center is a segment of business that is responsible for both revenue and expenses?
  - (a) Cost
  - (b) Profit
  - (c) Investment
  - (d) Budget
  
10. Which of the following consist in accumulation and reporting of costs by levels of responsibility within an organization?
  - (a) Responsibility Accounting
  - (b) Job and Batch Costing
  - (c) Process Costing
  - (d) Contract Costing
  
11. Which of the following budget is called the comprehensive budget or the complex blueprint of the planned operations of the firm?
  - (a) Master Budget
  - (b) Flexible Budget
  - (c) Fixed Budget
  - (d) Production Budget
  
12. Which of the following is not considered as the merit of zero-base budgeting?
  - (a) Control on expenditure
  - (b) Absence of unfair influence
  - (c) Past records
  - (d) Resistance of new ideas
  
13. Which of the following statements is *incorrect* about management accounting?
  - (a) Management account does not provide information to managers at various levels.
  - (b) The scope of cost accounting is very limited as it does not include financial and management accounting.
  - (c) Cost accounting does not use techniques of management accounting.
  - (d) Where cost accounts end, management accounts begin.

14. Which method is not used for the segregation of semi-variable costs?
- (a) Index number
  - (b) Scatter graph method
  - (c) Least square method
  - (d) Range method
15. Which of the following activities is not included in Cash Flow Statement?
- (a) Activity Based Costing
  - (b) Operating Activity
  - (c) Investing Activity
  - (d) Financing Activity
16. Which of the following methods is not taken into account for the calculation of purchase consideration?
- (a) Net assets method
  - (b) Working capital method
  - (c) Lump-sum payment method
  - (d) Swap method
17. Which of the following item is not considered under fictitious assets?
- (a) Provision for bad debts
  - (b) Discount on issue of shares/debentures
  - (c) Preliminary expenses
  - (d) Negative Surplus
18. \_\_\_\_\_ is concerned with the complete overhauling of the financial position of a company.
- (a) Internal Reconstruction
  - (b) External Reconstruction
  - (c) Demerger
  - (d) Pooling of Interest
19. Which reserve is the capitalization of free profits utilized for redemption of nominal value of the redeemable preference shares?
- (a) Capital Redemption Reserve
  - (b) Debenture Redemption Reserve
  - (c) Development Rebate Reserve
  - (d) Investment Allowance Reserve
20. Which of the following variables defines and explains the concepts of finance?
- (a) Inflation
  - (b) Capital Structure
  - (c) Risk-free Rate of Interest
  - (d) Risk and Return
21. Which of the following is not a function of a finance manager?
- (a) Procurement of Fund
  - (b) Allocation of Fund
  - (c) Maintaining balance between Risk and Return
  - (d) Maneuvering the share price

22. Minimum rate of return that a firm must earn in order to satisfy its investors is also known as:
- (a) Average Return on Investment
  - (b) Weighted Average Cost of Capital
  - (c) Net Profit Ratio
  - (d) Average Cost of Borrowing
23. Which of the following statements is true?
- (a) Retained earnings are cost free
  - (b) External Equity is cheaper than Internal Equity
  - (c) Retained Earnings are cheaper than External Equity
  - (d) Retained Earnings are costlier than External Equity
24. Dividend irrelevance argument of MM model is based on -
- (a) Issue of Debentures
  - (b) Issue of Bonus Shares
  - (c) Arbitrage
  - (d) Hedging
25. 'Bird in hand' argument was given by -
- (a) Walter's model
  - (b) Gordon's model
  - (c) MM model
  - (d) Residuals Theory
26. Gross working capital is equal to -
- (a) Total Current Liabilities
  - (b) Total Current Assets
  - (c) Total Assets
  - (d) Total Liabilities
27. Hedging approach to working capital deals with -
- (a) Financing of Current Assets
  - (b) Financing of Current Liabilities
  - (c) Level of Current Assets
  - (d) Level of Current Liabilities
28. In order to design an optimal capital structure, a company should strive for -
- (a) Maximum Debt
  - (b) Minimum Debt
  - (c) Minimum WACC
  - (d) Minimum Cost of Equity

29. In case of compulsory acquisition, if an assessee receives enhanced compensation, then enhanced compensation is taxable as:
- (a) Long term capital gain u/s 112A
  - (b) Other long-term capital gain
  - (c) Short term capital gain
  - (d) Short term or long-term capital gain depending upon the original capital gain of compulsory acquisition
30. Which of the following is not the feature of internal reconstruction?
- (a) Removal of useless intangible assets
  - (b) Proper valuation of tangible fixed assets
  - (c) Necessary corrections in the assets of balance sheet
  - (d) Overdue outside liabilities
31. It is an instrument of short-term borrowing by the Government of India maturing in less than one year -
- (a) Commercial bill
  - (b) Treasury bill
  - (c) Call money
  - (d) None of the above
32. Which of the following statements is not true with regard to commercial paper?
- (a) It is a long-term unsecured promissory note with a fixed maturity period.
  - (b) It usually has a maturity period of 15 days to one year.
  - (c) It is sold at a discount and redeemed at par.
  - (d) Companies use this instrument for bridge financing.
33. A company auditor should see that the dividend should be paid
- (a) After charging depreciation
  - (b) Without charging depreciation
  - (c) Out of capital
  - (d) None of the above
34. Which of the following statements is not true with regard to capital market?
- (a) The funds are raised for a short period of time.
  - (b) Both debt and equity funds can be raised.
  - (c) It is classified into two types.
  - (d) All of the above
35. Which of the following is the function of financial market?
- (a) Mobilization of savings
  - (b) Price fixation
  - (c) Provide liquidity to financial assets
  - (d) All of the above

36. X, an employee of the private company, gets Rs. 30,000 p.m. basic salary and entitled to Rs. 1,500 p.m. as entertainment allowance. What are the deductions u/s 16(ii) from gross salary in respect of entertainment allowance?
- (a) Rs. 5,000
  - (b) Rs. 18,000
  - (c) Rs. 72,000
  - (d) Nil
37. A new business was set up on 15.10.2021 and it commenced its business from 1.12.2021. The first previous year in this case shall be:
- (a) 1.04.2022 to 31.03.2023
  - (b) 1.04.2021 to 31.12.2021
  - (c) 1.12.2021 to 31.12.2022
  - (d) 15.10.2021 to 31.03.2022
38. Loss under the head house property:
- (a) can be carried forward for ten years
  - (b) can be carried forward for eight years
  - (c) cannot be carried forward
  - (d) can be carried forward for only four years
39. Which of the following may be ignored while designing a capital structure?
- (a) Profitability
  - (b) Flexibility
  - (c) Control Philosophy
  - (d) Political Stability
40. Exemption under section 54EC shall be available to -
- (a) any assessee
  - (b) individual only
  - (c) individual or HUF
  - (d) company assessee only
41. Unabsorbed depreciation, which could not be set off in the same assessment year, can be carried forward for -
- (a) Indefinitely
  - (b) 8 years
  - (c) 10 years
  - (d) 4 years
42. Expenditure incurred on family planning amongst the employees is allowed to -
- (a) a company assessee
  - (b) Hindu Undivided Family (HUF)
  - (c) any assessee
  - (d) Cooperative society

43. Municipal valuation of the house is Rs. 1,00,000 whereas the fair rent of house property Rs. 1,20,000 and standard rent is Rs. 1,10,000; actual rent received or receivable is Rs. 1,40,000; municipal taxes paid 10%. The annual value in this case shall be:

- (a) Rs. 1,30,000
- (b) Rs. 1,50,000
- (c) Rs. 90,000
- (d) Rs. 1,00,000

44. Mr. R has two house properties. If both the houses are self-occupied, the annual value

- (a) should be equal to actual rent received
- (b) of one house shall be nil
- (c) of no house shall be nil
- (d) of both houses shall be nil

45. Leave travel concession is a tax-free perquisite -

- (a) for one journey in a block of 4 years
- (b) two journeys in a block of 4 years
- (c) one journey per year
- (d) only four journeys

46. Match List-I with List-II

List-I	List-II
(a) 80 TTA	(i) Deduction in respect of payment of interest on loan taken for higher education
(b) 80 CCD	(ii) Deduction in respect of interest on loan taken for residential house property
(c) 80 E	(iii) Deduction in respect of interest on deposits in savings account
(d) 80 EE	(iv) Deduction in respect of contribution to national pension system

Choose the correct option from those given below:

	(a)	(b)	(c)	(d)
A.	(iii)	(iv)	(i)	(ii)
B.	(iii)	(iv)	(ii)	(i)
C.	(iii)	(i)	(ii)	(iv)
D.	(i)	(ii)	(iii)	(iv)

47. Under the Income Tax Act, 1961 "block of assets" for the purpose of charging depreciation means:

- (a) Value of all the assets after depreciation
- (b) Value of all tangible assets after charging depreciation
- (c) Value of all those assets to which one rate of depreciation is applicable
- (d) Gross value of machinery and plant less accumulated depreciation



48. \_\_\_\_\_ is a process for marketing or selling a public offer of equity shares of a company.
- (a) Book Building
  - (b) Right Shares
  - (c) Bonus Shares
  - (d) Employee Stock Option Plan
49. It is a market for short-term funds which deals in monetary assets whose period of maturity is up to one year -
- (a) Primary market
  - (b) Secondary market
  - (c) Capital market
  - (d) Money market
50. Loss under the head capital gain in a particular assessment year can:
- (a) be carried forward
  - (b) be set off from any other head of income in the same assessment year
  - (c) neither be set off nor carried forward
  - (d) be carried forward for only two years

**PART-II**  
**(Short Answer-type Questions)**

*Instructions for Questions 51 to 63:*

- *Write the answers in short for any 10 (TEN) out of the thirteen questions.*
- *Each question carries 5 marks.*

**[5x10=50]**

51. You as a tax payer do not perceive a direct pinch while paying indirect taxes. Comment.
52. What is Cost Control? Explain the steps followed to exercise control over cost.
53. Describe the factors which are to be considered before installing a system of cost accounting.
54. The current price of a company share is Rs. 70. The company is expected to pay a dividend of Rs. 4.20 per share increasing with an annual growth rate of 5%. If an investor's required rate of return is 10%. Should he buy the share and why?
55. What is the significance of cash flow statement? Explain the difference between direct and indirect methods of reporting cash flows from operating activities as per AS-3.
56. The profit volume ratio of X Ltd. is 50 percent and the margin of safety is 40 percent. Calculate the net profit if the sales volume is Rs. 1,00,000.

57. Examine the taxability of agricultural income under the Income Tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?
58. What is financial leverage? How can the degree of financial leverage be measured? When is financial leverage favourable to the company?
59. What is venture capital financing? Explain the methods of venture capital financing.
60. Explain the objectives of 'accounting standards' in brief. State the advantages of setting Accounting Standards.
61. Compute Material Cost Variance with the help of following information:
- Standard Output: 1000 units  
 Actual Output: 800 units  
 Standard Price: Rs. 4.00 per kg  
 Actual Price: Rs. 5.00 per kg  
 Actual Quantity: 5000 kg  
 Standard Quantity: Rs 5.00 kg per unit
62. Find out the Financial Leverage from the following data:
- Net worth: Rs. 25,00,000  
 Debt/Equity: 3:1  
 Interest Rate: 12%  
 Operating Profit: Rs. 20,00,000
63. Distinguish between pooling of interest method and purchase method of recording transactions related to amalgamation.

**PART-III**  
**(Long Answer-type Questions)**

***Instructions for Questions 64 to 71:***

- *Answer any 5 (FIVE) out of the eight questions.*
- *Each question carries 10 marks.*

***[10x5=50]***

64. Explain Modigliani – Miller Theory of Capital Structure. How is it different from dividend decision approach?
65. Textrol Ltd. has 80,000 shares outstanding. The current market price of these shares is Rs. 15 each. The company expects a net profit of Rs. 2,40,000 during the year and it belongs to a risk class for which the appropriate capitalization rate has been estimated to be 20%. The company is considering dividend of Rs. 2 per share for the current year.

- i. What will be the price of the share at the end of the year if the dividend is paid and not paid by the company?
11. How many new shares must the company issue if the dividend is paid and the company needs Rs. 5,60,000 for an approved investment expenditure during the year? Use MM model for the calculation.

66. “The engagement team should hold discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statement. All these discussions should be appropriately documented for future reference.” Explain.

67. The following is the capital structure of ABC Ltd.

Source	Amount (Rs.)	Specific C/C
Equity Share Capital (2,00,000 shares of Rs. 10 each)	20,00,000	11%
Preference Share Capital (50,000 shares of Rs. 10 each)	5,00,000	8%
Retained Earnings	10,00,000	11%
7.5% Debentures of Rs. 1,000 each	15,00,000	4.5%

Presently, the debentures are being traded at 94%, Preference shares at par and the equity shares at Rs. 13 per share. Find out the Weighted Average Cost of Capital (WACC) based on book value and market value weights.

68. The book value of plant and machinery on 1-1-2014 was Rs. 2,00,000. New machinery for Rs. 10,000 was purchased on 1-10-2014 and for Rs. 20,000 on 1-7-2015. On 1-4-2016, a machine whose book value had been Rs. 30,000 on 1-1-2014 was sold for Rs. 16,000. Depreciation had been charged at 10% p.a. since 2014 on straight line method. It was decided in 2016 that depreciation @20% p.a. on diminishing balance method should be charged with retrospective effect since 1-1-2014. Show Plant and Machinery Account upto 31-12-2016. Give detailed workings. Also show change of method prospectively.

69. What is Standard Costing? State the material and labour variances, how they are calculated and the reason for variance.

70. Quality Products Ltd. manufactures and markets a single product. The following data is available:

Materials: Rs. 16.00 per unit

Conversion Cost (variable): Rs. 12.00 per unit

Dealer's Margin: Rs. 4.00 per unit

Selling Price: Rs. 40 per unit

Fixed Cost: Rs. 5,00,000

Present Sales: 90,000 units

Capacity Utilization: 60 percent

There is acute competition. Extra efforts are necessary to sell the product.

Suggestions have been made for increasing sales as under :

- (a) By reducing selling price by 5 percent
- (b) By increasing dealer's margin by 25 percent over the existing rate

Which of these two suggestions you would recommend, if the company desires to maintain the present profit? Give reasons.

71. Explain in detail the 'Capital Budgeting Process' in the context of financial management.

**PART-IV**  
**(Essay-type Questions)**

**Instructions for Questions 72 to 75:**

- Answer any 2 (TWO) out of the four questions.
- Each question carries 25 marks.

**[25x2= 50]**

72. Mr. R who is neither a director nor has substantial interest in any company, is offered on 1.4.2021 an employment by G Ltd., New Delhi with the following two alternatives:

Particulars	Alternative I	Alternative II
Basic Pay	40,000	40,000
Bonus	2,000	2,000
Education Allowance	4,400	--
Education Facility	--	4,400
Servant Allowance	3,000	--
Free domestic Servant	--	3,000
Entertainment Allowance	6,000	6,000
Club Facility	--	6,000
Conveyance Allowance for private purposes	3,000	--
Free car facility for private purposes	--	3,000
Allowance for gas, electricity and water supply	1,000	--
Free gas, electricity and water supply	--	1,000
A rent-free unfurnished house: Fair Rent	6,000	6,000

Which of the two alternatives R should opt for: Assume R -

- (a) does not opt to be taxed under section 115BAC.
- (b) opts to be taxed under section 115BAC.

73. a) State the advantages and limitations of ABC analysis of costing.  
b) Cost is not the amount which the company plans to pay or actually pays, rather it is the expectation of the stakeholders. Explain.

74 XYZ Ltd. has supplied the following information:

Sales and Production for the year	69,000 units
Finished goods in store	3 months
Raw Material in Store	2 months consumption
Production process	1 month
Credit allowed by Creditors	2 months
Selling price per unit	Rs. 50.00
Raw Material	50% of Selling Price
Direct Wages	10% of Selling Price
Overheads	20% of Selling Price

20% of sales are on cash basis and credit sales allowed to customers for one month. Overheads include Rs. 5 as depreciation. There is regular Production and Sales cycle and Wages and Overheads accrue evenly. Wages are paid in the next month of accrual and Overheads are paid 15 days in arrears. Material is introduced in the beginning of Production cycle. Find out its working capital requirement on cash cost basis.

75. a) Discuss in detail the incomes which do not form part of total income.  
 b) Explain the various income tax deductions and exemptions under section 80C, 80D & 80DDB for the financial year 2021-22.